

A close-up, vertical view of the American flag, showing the stars and stripes. The flag is draped and slightly wrinkled, with the stars in the upper left and the stripes extending downwards.

SUMMARY PERFORMANCE AND FINANCIAL INFORMATION FISCAL YEAR 2009



Department of Defense

February 15, 2010

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ABOUT THIS REPORT

Summary of Performance and Financial Information -

This report summarizes the Department's fiscal year (FY) 2009 financial and performance information from the Agency Financial Report (AFR) and the Annual Performance Report (APR), making the information more transparent and accessible to Congress, the public, and other key constituents.

The AFR, APR, and this report are on the Comptroller's website at <http://comptroller.defense.gov/reports.html>

MISSION

The mission of the Department of Defense (DoD) is to provide the military forces needed to deter war and to protect the security of our country.



MESSAGE TO THE PUBLIC

During Fiscal Year 2009, the Department of Defense executed the national security mission of our nation, providing for the common defense in the most demanding environment imaginable. We are mindful of the great cost of supporting this mission, but the American people should know that these resources provide unmatched capabilities to defeat our current enemies and to deter those who might want to harm us. These same capabilities also allow America to do much good, whether supporting our partners in Iraq or Afghanistan, or responding to natural disasters at home or abroad.

“The costs of defending our nation are high. The only thing costlier, ultimately, would be to fail to commit the resources necessary to defend our interests around the world, and to fail to prepare for the inevitable threats of the future.”

*Robert Gates
Secretary of Defense*



During the past year, DoD executed a substantial portion of a responsible troop drawdown in Iraq while increasing efforts to strengthen the Afghanistan government and to prevent our enemies from using that country as a safe haven for insurgents. To respond to an increasingly asymmetric threat that demands a visible presence on the ground, the Army and Marine Corps—our two premier ground forces—reached their FY 2009 force levels of 547,400 and 202,100 respectively, more than two years ahead of schedule. This is a tribute to the patriotism of our citizens and a testimony to the viability of our all-volunteer force. These increases reduce stress on military members and boost morale by increasing time at home with their families.



“Soldiers, Sailors, Airmen and Marines, Active, Guard and Reserve... serve and work together, in the national interest... if we give these men and women the support they deserve, then I am confident we will continue to field what the American people have come to expect of us: the best-trained, the best-equipped, the best-led military force the world has ever seen.”

*William J. Lynn
Deputy Secretary of Defense*

We remained dedicated to the care of our most important resource—the all-volunteer military force, including our wounded warriors, military families and civilians. Last year, the commitment of resources provided them with a 3.9 percent pay raise and supported investments in improved healthcare facilities such as warrior transition units. In addition, 9.4 million eligible beneficiaries received healthcare from the 59 in-patient medical facilities, 663 medical and dental clinics, and numerous private sector TRICARE providers.

We are committed to balancing today's needs with tomorrow's potential threats. To improve the nation's ability to combat unconventional threats, the Department has made investments in new weapons systems such as unmanned aerial vehicles, mine resistant ambush protected vehicles and precision guided munitions, while also striving to deliver capability to combat improvised explosive devices. Ensuring that our men and women in uniform have everything they need to perform their mission and return home safely continues to be a high priority.



"As the Chief Financial Officer for DoD, I remain fully committed to justifying and obtaining the resources necessary to meet our nation's security requirements while also continuing to act as a good steward of the public's money."

*Robert F. Hale
Chief Financial Officer*

How we provide this support is also an area demanding renewed attention. We are looking at not only what we buy, but also how we buy it, transforming the way we do business in support of the warfighter. We continue to pursue a reform agenda that strives to strengthen the elements of our business—our people, our processes and our systems. The overall objective of these initiatives will be to sustain mission support while also ensuring effective and efficient use of resources. In FY 2009, the Department established a management reform agenda that included specific plans designed to implement a set of High Priority Performance Goals focusing on areas such as:

- Improved energy efficiency,
- Improved human resources programs to streamline the hiring process and strengthen our acquisition workforce,
- A virtual lifetime electronic health record for uniformed members,
- Strengthened business and logistics operations supporting contingencies,
- Acquisition reform, and
- Audit readiness.

In summary, we take our stewardship role over public resources very seriously, and we are working to maximize efficiencies related to the public's significant investment in Defense. Our goal is to ensure the best use of these funds to win our nation's current wars and to deter future threats. To that end, the Department focused on improving the financial information most important to our leadership – budgetary reports and other data related to mission critical property. We will continue to emphasize improving the quality of our financial information for management. This commitment will (1) improve visibility and accountability over the resources supporting our critical national security mission, (2) better inform leadership decision-making, and (3) provide financial auditability to sustain the confidence and trust of the American people.

PERFORMANCE HIGHLIGHTS

DEPARTMENT OF DEFENSE STRATEGIC PLAN

With the change in Administration, the DoD FY 2009 Performance Plan strategic goals were updated to adopt the 2008 National Defense Strategy objectives with an additional objective focused on business operations for DoD's overarching strategic goals, as depicted in Figure 1-1. The Department examines America's defense needs by conducting the Quadrennial Defense Review (QDR) to provide a blueprint for a strategy-based, balanced, and affordable defense program. The transition goals may change based on the 2010 QDR released in February 2010, which establishes the Administration's approach to carrying out the Department's National Security Objectives.

Strategic Goal 1 acknowledges the ongoing major conflicts and extended stabilization campaigns in Iraq and Afghanistan. At the same time, Strategic Goal 2 recognizes that the Department needs to recast its view of future warfare through the lens of a long and globally distributed conflict. Therefore, Strategic Goal 2 focuses on reorienting the Armed Forces to deter and defend against transnational terrorists around the world and to promote security cooperation. Strategic Goal 3 focuses on the Defense Department's contributions to the homeland defense mission. Success under this goal requires that all elements of national power work together to protect national interests. Together, these three strategic goals encompass the Department's primary warfighting missions. Strategic Goal 4 serves to support these three goals, through focusing on improving and integrating DoD business operations in ways that better support the Department's warfighting efforts.

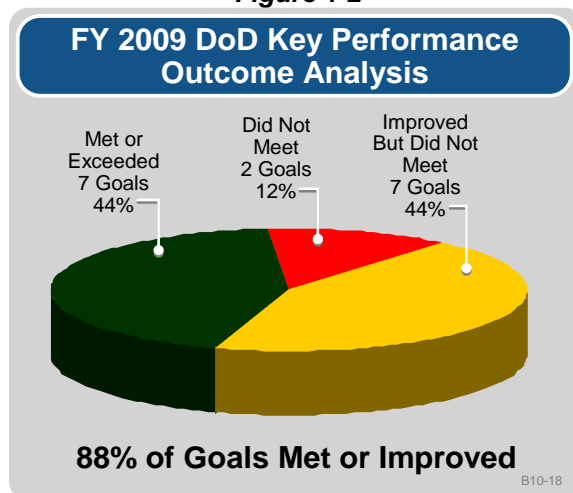
FY 2009 DEPARTMENT OF DEFENSE KEY PERFORMANCE OUTCOMES

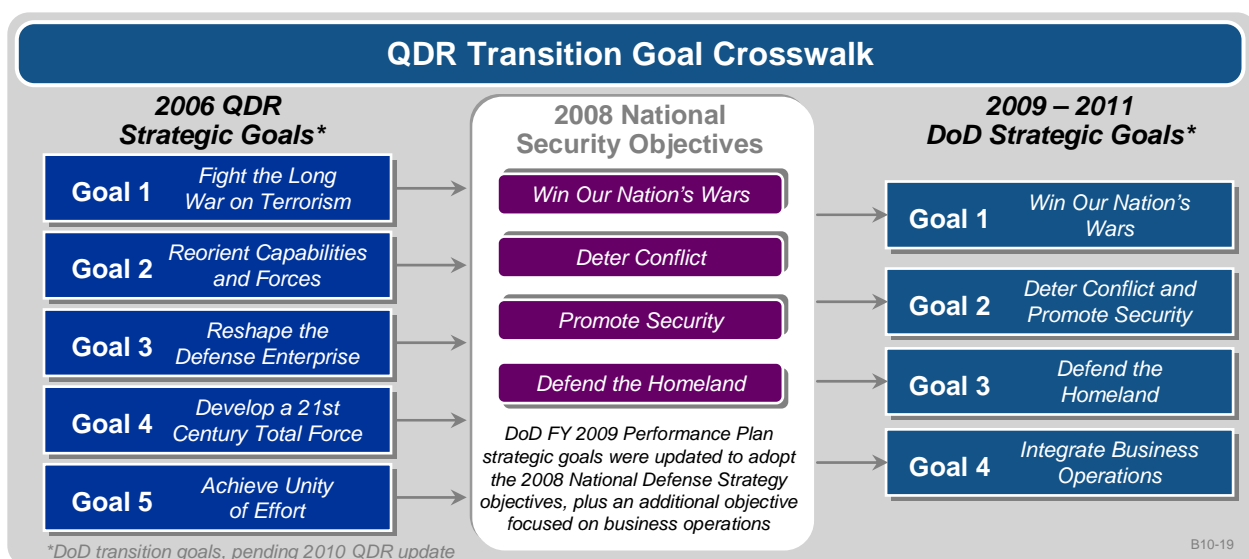
The tables on the following pages depict 16 key performance outcomes for FY 2009. The Department met its goals or demonstrated improvement in 88 percent of these key outcome areas when compared to FY 2008 (Figure 1-2). Detailed performance results are in the Department's FY 2009 performance report at: <http://comptroller.defense.gov/>.

Figure 1-1



Figure 1-2





STRATEGIC GOAL 1: WIN OUR NATION'S WARS

Since 2001, DoD has been engaged in developing the forces and capabilities of Iraq and Afghanistan to provide for their own defense.

Benefit(s): Training Iraqi and Afghan Security forces prepares both nations for transitioning security to their respective governments, enabling DoD to reallocate its resources and military forces to other regions.

Performance Measures	2008 Results	2009 Target	2009 Results
Total Iraqi Security Forces trained	439,700	588,000	Sensitive ¹
Total Afghan National Security Forces trained/assigned	144,000	187,196	184,059

1 The Department exceeded the 2009 target. However, with the expiration of the UNSCR 1790 that mandated extended multinational forces in Iraq, FY 2009 data is considered sensitive as it pertains to the specific military personnel strength for a sovereign nation.

STRATEGIC GOAL 2: DETER CONFLICT AND PROMOTE SECURITY

Five key performance outcomes relate to the Department's goal to deter conflict and promote security. The first measure focuses on increasing DoD Special Operations Forces capabilities to address irregular/unconventional warfare. The next two focus on converting Army force structure to modular designs required to meet military operational missions and achieving significant transformation of the Army in a generation. The final two measures focus on building the capacity of international partners by increasing the number of international students participating in DoD-sponsored educational activities and improving access to equipment, technology, and training.

Benefit(s): Increasing and restructuring DoD capabilities and forces to address unconventional warfare provides a force structure that meets ongoing military operational missions. These risk-reduction activities help control export of technology and activities that shape the international environment toward U.S. interest. They also track training capabilities among international partners for countering threats and challenges of terrorism.

Performance Measures	2008 Results	2009 Target	2009 Results
Percent increase in DoD Special Forces and Navy Sea, Air and Land (SEAL) personnel achieved	12.4%	17%	23%
Number of Army Brigades Combat Teams converted to a modular design and available to meet military operational demands	38	47	46
Number of modular Army Multi-functional and Functional Support brigades available to meet military operational demands	188	201	196
Annual number of international students participating in Department-sponsored educational activities	55,895	56,400	60,409
Annual number of Technology Security Actions approved	118,367	120,704	143,600

STRATEGIC GOAL 3: DEFEND THE HOMELAND

Two key performance outcomes are representative of the Department's contributions to the Homeland Defense mission. Both measures reflect new DoD capabilities to respond to and manage Weapons of Mass Destruction or other catastrophic events.

Benefit(s): Increasing DoD capabilities to mitigate attacks on the U.S., its territories, and key assets contribute to the Nation's security.

Performance Measures	2008 Results	2009 Target	2009 Results
Number of National Guard Weapons of Mass Destruction –Civil Support Teams certified	53	55	55
Number of National Guard Chemical, Biological, Radiological, Nuclear, and High-Yield Explosive Enhanced Response Force Packages trained for Weapons of Mass Destruction or other catastrophic responses	17	17	15

STRATEGIC GOAL 4: INTEGRATE BUSINESS OPERATIONS

Seven outcomes under this goal focus on improving joint warfighting support by improving the quality of life for Service Members and their families and sustaining the capacity of the all-volunteer force to meet DoD steady-state and surge activities. The first two measure the number of inadequate military housing units. The third measures average customer wait time to improve support for maintenance and repair activities of major equipment and sustainment of the operating forces. The fourth and fifth measures assess DoD Active and Reserve component end-strength against levels prescribed by the Secretary of Defense for mission accomplishment. The sixth measures the percent of Armed Forces without any deployment-limiting medical conditions to ensure readiness for mission capability. The final key outcome focuses on closing the current gap in language capabilities by assessing the percent of operational and contingency language skills to meet mission requirements.

Benefit(s): Integrating and improving DoD business operations improves warfighting support. It also improves the quality of life for Service Members and their families, and optimizes long-term performance, readiness, and return on investment for DoD facilities. Maintaining and developing a 21st Century Total Force ensures the U.S. military has sufficient personnel with adequate skills for ongoing mission requirements to protect the nation's interests.

Performance Measures	2008 Results	2009 Target	2009 Results
Number of inadequate family housing units in the Continental U.S.	5,085	0	4,600
Number of inadequate family housing units outside the Continental U.S.	7,273	0	2,367
Average customer wait time (days)	16.7	15	16.2
Percent variance in Active component end strength from the Secretary of Defense prescribed end strength for the year	2.1%	+/- 3%	0.9%
Percent variance in Reserve component end strength from the Secretary of Defense prescribed end strength for the year	0%	+/-3%	1%
Percent of deployable Armed Forces without any deployment-limiting medical condition	84%	>92%	85%
Percent of operational and contingency language needs met	Not applicable	+1%	<.1%

MANAGEMENT CHALLENGES

The DoD Office of the Inspector General has summarized the Department's most serious management and performance challenges and briefly assessed the progress in addressing those challenges. Highlights of the assessment follow, and the full statement is included in the Department's FY 2009 AFR found at [http://www.comptroller.defense.gov/afr/fy2009/Addendum B Other Accompanying Information.pdf](http://www.comptroller.defense.gov/afr/fy2009/AddendumB%20Other%20Accompanying%20Information.pdf).

Challenge	Action Taken
Financial Management: Significant financial management challenges adversely affect DoD's ability to provide reliable, timely, and useful financial and managerial data needed to support operating, budgeting, and policy decisions.	<ul style="list-style-type: none"> The Department established priorities for improving financial information and achieving audit readiness by focusing first on information used by management, while maintaining an end goal of auditable financial statements.
Acquisition Processes and Contract Management: DoD has been unable to react quickly to the increased need for more contract and oversight support to meet post September 11, 2001 spending trends.	<ul style="list-style-type: none"> The Department increased staffing dedicated to contracting in expeditionary operations and the development of essential tools and training for contingency contracting officers.
Joint Warfighting and Readiness: The Department faces challenges in planning and executing the responsible drawdown from Iraq and the redeployment to Afghanistan. Longer term, DoD challenges include resetting the force, retraining skills, and reengaging with other nations' militaries.	<ul style="list-style-type: none"> The Department continues to make progress in adapting its transformation initiatives to address the challenges of a dynamic and volatile environment.
Information Assurance, Security, and Privacy: The Department is challenged with ensuring that a robust risk management, security, and information assurance program is in place.	<ul style="list-style-type: none"> Navy and Air Force implemented automated data entry controls to prevent the introduction of inconsistent data. In addition, the Department has established policy for securing DoD information used by contractors and other non-DoD entities.
Health Care: The DoD Military Health System's challenge of providing quality care to approximately 9.4 million eligible beneficiaries is further stressed by the increased frequency and duration of deployed forces.	<ul style="list-style-type: none"> The DoD is implementing programs to ensure the right care is delivered and unnecessary tests and procedures are avoided. The Department is also addressing force readiness and mental health services by adding over 1,900 new mental health professionals.
Equipping and Training Iraqi and Afghan Security Forces: The Iraqi and Afghan security forces continue to lack the ability to conduct numerous tasks without U.S. Forces and Coalition enablers, such as logistics, air support, intelligence, and health care systems.	<ul style="list-style-type: none"> Following the withdrawal of U.S. combat forces from Iraqi cities in June 2009, the Iraqi Security Force continued to mature in leadership roles – providing security and overall stability for the citizens of Iraq. The Afghanistan National Security Forces continue to develop capabilities to conduct counterinsurgency operations.
Nuclear Enterprise: Since the end of the Cold War, there has been a dramatic decline in the level and intensity of focus on the nuclear enterprise and the nuclear mission.	<ul style="list-style-type: none"> The Department made substantial progress in reversing the decline of the nuclear enterprise. The DoD is engaged in a robust effort to implement OIG recommendations and corrective action plans to address all deficiencies.
American Recovery and Reinvestment Act (ARRA): While DoD has completed its agency and program specific plan, ARRA execution is not moving as quickly as planned and much of the spending and project work will not occur until FY 2010. Additionally, as with other contingency-like operations, DoD's ability to identify, start, meet milestones, and account for the efforts will be a recurring challenge.	<ul style="list-style-type: none"> The Department obligated \$3.3 billion in ARRA funds through September 30, 2009 (45 percent of the \$7.4 billion allocated to DoD). The Department is taking aggressive action to execute the funds as quickly as possible.

FINANCIAL HIGHLIGHTS

FINANCIAL ANALYSIS

The Department received appropriations of \$665 billion in FY 2009, as depicted in Figure 1-3, and used these resources primarily to recruit and maintain a highly trained fighting force in support of wartime operations. Additionally, DoD continued to support the responsible drawdown associated with Operation Iraqi Freedom while increasing the emphasis on operations in Afghanistan to ensure the U.S. will never again experience an attack on our homeland.

Figure 1-3

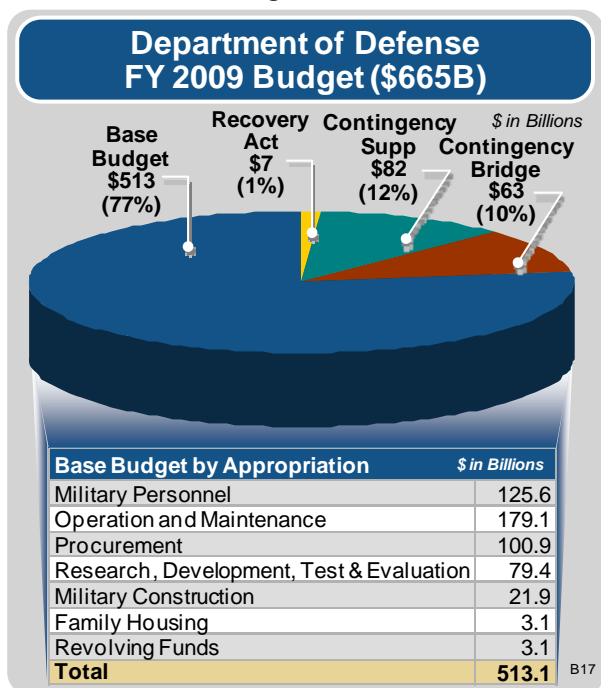
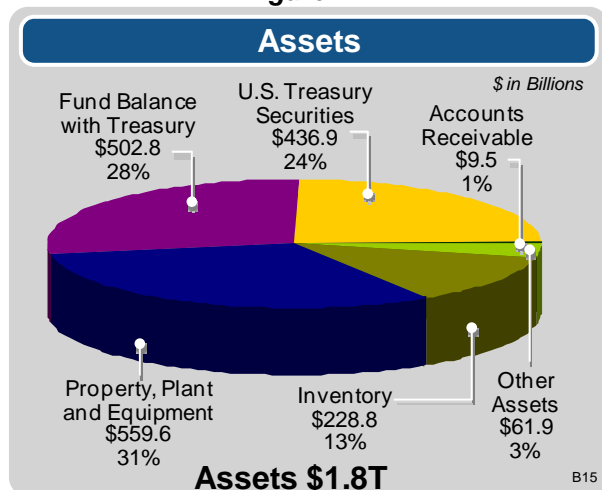


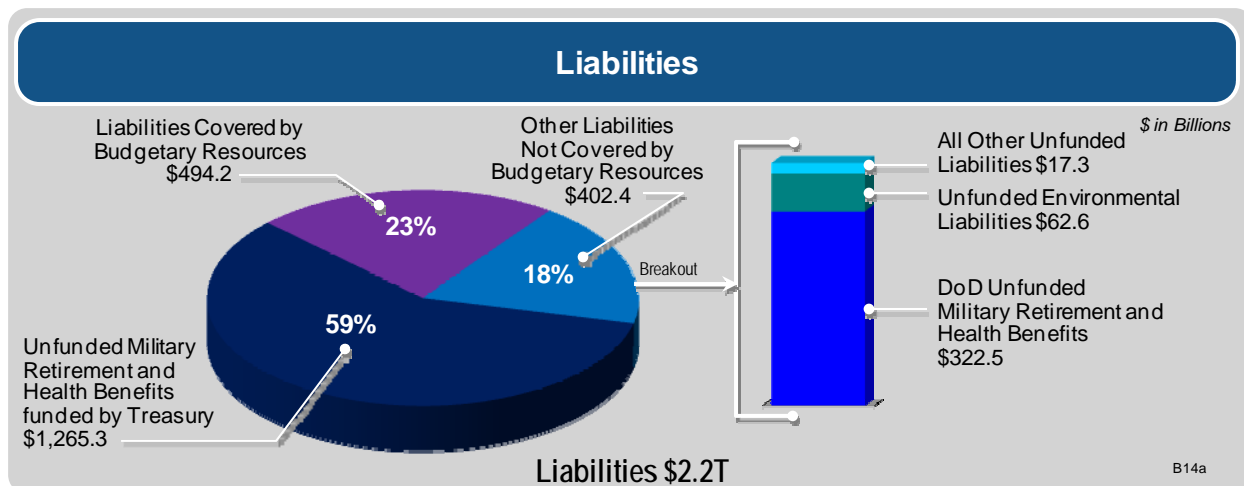
Figure 1-4



The Department owns and manages assets of \$1.8 trillion as depicted in Figure 1-4. The majority of the Department's assets consist of Military Equipment such as naval vessels, aircraft, and armored ground vehicles used in support of DoD's continued commitments to Operation Enduring Freedom in Afghanistan and other operational demands.

The Department's liabilities of \$2.2 trillion primarily consist of future military retirement and health benefits to honor the commitments made to those who serve our country. Figure 1-5 identifies 82 percent of this liability as either covered with existing assets (23%) or funded in the future by the U.S. Treasury (59%), leaving \$402.4 billion (18%) that will require future DoD resources.

Figure 1-5



IMPROVEMENTS TO FINANCIAL REPORTING

Since passage of the CFO act, DoD has demonstrated auditable financial information in our large, self-contained retirement and healthcare funds, smaller agencies, and most recently, the US Army Corps of Engineers. Making progress in the largest, most material segments of the DoD—the military components—has been difficult. Beginning in FY 2009, DoD refocused financial improvement efforts to first address the accuracy of information used most often by decision makers, while continuing to correct internal control weaknesses, improve business processes, and sustain a skilled financial management workforce. These efforts show real promise and continue to improve the accuracy and reliability of the Department's financial information.

The Department revised its strategy for the Financial Improvement and Audit Readiness (FIAR) Plan, emphasizing new priorities of auditable budgetary and mission critical asset information. Accurate budgetary information identifies resources and their availability for use, which is essential to manage operations and acquisitions effectively. Likewise, accurate information on mission critical assets (such as military equipment, real property, and supplies) is necessary for leaders to ensure that troops are properly equipped and supplied.

The Department has already made progress on the revised FIAR strategy, and that progress is expected to continue in the years ahead. The Marine Corps FY 2010 Statement of Budgetary Resources (SBR) is currently under audit. By FY 2011, all of the Services will be executing their detailed plans to improve budgetary information within a standard framework for achieving audit readiness on their SBR and ultimately to provide quality financial information that is useful to DoD leaders.

IMPROVEMENTS TO FINANCIAL SYSTEMS

Financial improvement efforts and ongoing financial audits will require modern, integrated and compliant financial systems. To meet this need, the Department is deploying a series of Enterprise Resource Planning (ERP) systems that are operating within a standardized financial information structure for business and financial processes. These systems provide the business foundation that will ultimately improve financial information to support financial statement preparation.

In FY 2009, the Military Departments and Defense Agencies made significant progress in implementing ERPs. The Army implemented its first phase of the General Fund Enterprise Business System, delivering capability to 1,500 financial end-users, while the Naval Supply Systems Command became the second major acquisition command to implement the Navy ERP. The Air Force's Defense Enterprise Accounting and Management System deployed commitment accounting at Scott Air Force Base and will deploy complete accounting capability there in the second quarter of FY 2010. In addition, Defense Logistics Agency's Enterprise Business System now supports the largest supply chain in the world and the Defense Agencies' Initiative is operating at the Business Transformation Agency with plans to cover most of the remaining Defense Agencies in the years ahead.

SUMMARY

The Department is committed to improving the quality of the financial information we use to manage resources and achieve auditable information most important to our leadership – budgetary reports and other data related to mission critical property. Components are assessing, evaluating, testing, and correcting business and financial processes, controls, and systems to further the Department's progress and to improve visibility and accountability over resources entrusted to us.

RELEVANT WEB SITES

Web Address and Report Description

www.defense.gov

- Main DoD Web site, and links to other DoD Web sites.

<http://comptroller.defense.gov>

The DoD Comptroller Web site includes:

- Agency Financial Report
Reports the Department's financial condition, financial execution, plans, and accomplishments.
- Annual Performance Plan
Describes the Department's strategic goals and objectives, and the respective performance measures and targets that are used to assess progress.
- Annual Performance Report
Contains details of the Department's performance results and progress in achieving its strategic goals, and is required by the Government Performance and Results Act (GPRA).
- Summary Performance and Financial Information
Summarizes the Department's mission, key goals, budget allocation, and progress on key performance goals linking to the strategic goals.
- Congressional Budget Justification
The Department of Defense's budget request to Congress.
- Financial Improvement and Audit Readiness Plan
Describes the Department's strategy for improving financial management and reports progress in achieving financial statement audit readiness.

www.bta.mil

The DoD's Business Transformation Agency Web site includes:

- Business Enterprise Architecture
Blueprints DoD standard processes, data, data standards, business rules, operating requirements, and information exchanges for the Department's business and financial management activities.
- Enterprise Transition Plan
Sets the defense business systems modernization strategy and defines the target systems environment.

<http://www.defense.gov/QDR>

- Quadrennial Defense Review (QDR)
Legislatively-mandated review of the Department's strategy and priorities that sets a long-term course for DoD. Includes links to the 2006 and the 2010 QDRs.



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regarding the content of this report.

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